



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #174

Tribal Gaming Revenue Allocations

Gaming Economic Development and Diversification Grant and Loan Program (Commerce -- Departmentwide and Economic Development)

[LFB 2001-03 Budget Summary: Page 168, #5]

CURRENT LAW

The gaming economic development and diversification grant and loan programs were created by 1999 Wisconsin Act 9 (the 1999-01 biennial budget) to provide financial assistance to businesses that are located in areas affected by Native American gaming operations. Funding for the programs is provided from tribal gaming revenue provided to the state under state-tribal gaming compact amendments. Commerce may not make an award to a business that is tourism-related unless the Department of Tourism concurs in the award. To be eligible for financial assistance under the programs, the claimant must be an existing business, including a Native American business, that is located or expanding in Wisconsin.

GOVERNOR

Modify the gaming economic development and diversification grant and loan programs as follows: (a) consolidate, into one biennial program revenue appropriation, both the gaming economic development and economic diversification grant and loan programs and create a consolidated program revenue biennial repayments appropriation for both programs; (b) reduce funding for the combined economic development and diversification appropriation by \$2,500,000 PR in 2001-02 and \$1,500,000 in 2002-03; (c) beginning in 2001-02, transfer annual funding of \$120,700 and 1.0 gaming grants specialist position from the gaming economic development grants and loans appropriation to the Department's Native American Liaison appropriation; (d) provide that economic diversification grants and loans could be used for brownfields remediation projects; (e) expand the definition of a business that would be qualified

to receive gaming economic development and diversification grants and loans to specifically include start-up businesses; (f) authorize Commerce to make a gaming economic development grant of up to \$1,000,000 to the M7 Development Corporation for constructing a multipurpose center at Lincoln Park in the City of Milwaukee; and (g) authorize Commerce to make gaming economic development grants of up to \$250,000 in 2001-02 and 2002-03 to the Chippewa Valley Technical College for a health education center.

DISCUSSION POINTS

1. Economic research generally finds that gambling operations have significantly improved the economic conditions of Native American communities and resulted in more self-sufficiency. Investment, employment and earnings have increased significantly in tribal economies. Moreover, the economies of the tribal communities and the areas around the gaming operations generally benefit in the aggregate. For example, a 1993 study sponsored by the Wisconsin Indian Gaming Association and the UW Cooperative Extension Service and conducted by economist James Murray determined that the gaming operations directly generated \$275 million in gross revenues, had payrolls of \$68.4 million, employed 4,500 persons and purchased \$56.4 million in goods from Wisconsin suppliers. The report concluded that the casinos directly generated 10,239 full time jobs (at the gaming operations and in other businesses), while a multiplier effect led to an additional 22,863 jobs. Murray also found that 1,400 of 2,000 tribal jobs in Wisconsin were the result of casino gambling and gaming revenues constituted between 40% to 90% of tribal revenues.

2. However, other studies have found the economic development effects of gaming operations to be uneven. In some cases, the development that occurs is limited to the casino and related service sectors with minimal spillover. Because casinos are often full-service complexes that offer food service, retail marketing, lodging and other services, local enterprises are vulnerable to competition in these areas. Even though gaming operations may cater to tourists, their effect on local service establishments may be detrimental because they draw some local customers away from existing retail trade and service providers in the same way regional shopping malls do. In a 1994 study in South Dakota, Robert Goodman (director of the U. S. Gambling Study) found that, a year after legalizing video gambling, there were significant declines in spending for clothing, recreation services, businesses, auto dealers and service stations. Essentially, gambling diverted money from other businesses to gaming operations. However, it is important to recognize that, in a market economy, individuals often adjust their spending patterns. For example, the opening of Miller Park in Milwaukee is expected to shift some consumer expenditures from local businesses to the ballpark area.

3. Another concern with the effects of gaming on local economies is that the employment effects, both positively and negatively, often occurs in the recreation, tourism and consumer service industries. In these cases, the jobs that are created or lost are mostly in restaurants, taverns, hotels and motels, food stores and in similar businesses in the industry. These types of jobs are frequently lower paying and seasonal. Few of the research studies indicate a significant increase in employment for manufacturers, professional services or high technology firms as a direct result of casino gambling. These industries tend to have higher paying full-time jobs and tend to adjust

better to long-term changes in economic growth. Thus, there is concern about the effect of gaming operations on the long-term economic stability and strength of the local economy and tribal community.

4. The types of financial assistance provided through the gaming economic development and diversification grant and loan programs include:

a. *Economic Impact Early Planning Grants.* Grants to provide funding for professional services necessary to evaluate the feasibility of a proposed project for starting, expanding, modernizing or improving a business. Awards can be made as business planning grants and special opportunity grants. Business planning grants are limited to funding the costs of obtaining comprehensive business plans from qualified independent third parties. Special opportunity grants are used for unique projects that have a statewide impact. The maximum business planning grant is \$3,000 while the maximum special opportunity grant is \$15,000.

b. *Economic Impact Loans.* Loans to provide financial assistance to businesses that have been negatively impacted by gaming. Awards can be used to provide funding for fixed asset financing related to modernizing and improving business operations. Eligible project costs include costs associated with land, new construction, remodeling, furniture and fixtures and equipment. The maximum award is \$100,000.

c. *Economic Diversification Loans.* Loans to provide financial assistance to businesses that are starting up or expanding to help diversify a community's economy so that it is less dependent upon revenue derived from gaming. Awards can be used to provide fixed asset financing for businesses to establish and expand operations. Awards can also finance the cost of land, new construction, remodeling, furniture and fixtures, and equipment. The maximum award is \$100,000.

5. The early planning grants and economic impact and diversification loans are designed to address concerns about the potential impact of gaming operations on local businesses and the local economy. The economic impact loan program targets financial assistance to businesses whose profits are affected by gaming operations. The program can be used to provide assistance to firms that lose business and income to gaming-related enterprises. Economic diversification loans are targeted to businesses that make significant capital investments and that create or retain jobs. The program can be used to assist businesses, such as manufacturing firms, that would contribute to the long-term stability of the local economy. The planning grants help ensure that projects funded with economic impact or diversification loans are successful.

6. Commerce staff view consolidation of the funding for the economic impact and diversification grant and loan programs into a single biennial appropriation as providing the Department with more administrative flexibility in awarding grants and loans. Consolidation recognizes the complementary objectives of the two loan programs and would allow the Department to consider more projects under either program. Similarly, a biennial appropriation would extend the period over which Commerce could evaluate projects. Funding for biennial appropriations is expendable during the biennium for which it is appropriated. The Department's other major financial assistance programs--the Wisconsin Development Fund (WDF), Rural Economic

Development program (RED), and Minority Business Finance program (MBF)--are all funded through biennial appropriations. Under the bill, the unencumbered balance in the consolidated appropriation at the end of the biennium would revert back to the Indian gaming receipts appropriation under DOA.

7. Another view is that retaining separate appropriations for economic impact and diversification grants and loans would ensure that the different types of gaming-related economic development projects would receive comparable funding. Equal emphasis would be placed on funding projects that addressed the current and the future effects of gaming on local economies. Maintaining the appropriations as annual would allow for more legislative oversight. Funding could only be expended in the year for which it is appropriated. The Department is experienced in budgeting the gaming economic development and diversification grants and loans on an annual basis. Current law provisions could be modified to require the unencumbered year-end balance in the appropriation to revert back to the DOA Indian gaming receipts appropriation. This would prevent unencumbered funds from accumulating in the appropriation.

8. The statutory provisions governing economic development grants and loans (economic impact early planning grants and economic impact loans) require that a business must be "negatively impacted by the existence of a casino" in order to receive a grant or loan. The Great Lakes Inter-Tribal Council (GLITC) argues that the inclusion of the word "negatively" in the eligibility requirements is "contentious language" and ignores the positive impact that Indian gaming operations have on businesses and communities. As a modification, the word "negatively" could be deleted, allowing businesses that are in any way impacted by a casino to be eligible for grants or loans.

9. Table 1 shows the amounts appropriated and awarded for gaming economic development and diversification grants and loans during the 1999-01 biennium. Amounts shown for fiscal year 2000-01 are for awards made through May 7, 2001. Total funding provided for economic development grants and loans includes \$114,000 PR in 1999-00 and \$125,900 PR in 2000-01 for a grant specialist position and related supplies and services funding to market and administer the gaming economic development and diversification grant and loan programs. Total funding for the economic diversification grant and loan program includes \$50,000 PR in supplies and services funding for marketing and administration. Also, 1999 Act 9 (the 1999-01 biennial budget) included a number of provisions that required Commerce to make awards from the gaming economic development and diversification grant and loan programs to specific projects or recipients including: (a) grants of \$500,000 in 1999-00 and \$1,000,000 in 2000-01 to Brown County to support construction of a new arena; (b) grants of up to \$900,000 to the Milwaukee Economic Development Corporation (MEDC) to fund a program for grants to persons for remediation and economic development projects in the Menomonee Valley; (c) grants of up to \$150,000 to the Northwest Regional Planning Commission to match federal or private funds for the purpose of establishing a community-based venture fund; (d) a grant of \$299,800 in 1999-00 to the City of Richland Center from the gaming economic development grant and loan program appropriation to replace the city well because of highway construction; and (e) a grant of \$1,000,000 from the gaming economic diversification program for construction of a Swiss cultural center in the Village of New Glarus.

TABLE 1

**Gaming Economic Development and Diversification
Grants and Loans -- Appropriations and Amounts Awarded**

| | <u>1999-00</u> | <u>2000-01</u> |
|--|----------------|----------------|
| Economic Development Appropriation | \$3,894,300 * | \$2,514,600 * |
| Awards | | |
| Early Planning Grants | | \$53,400 |
| Economic Impact Loans | | 363,400 |
| Legislative Awards | | |
| Milw. Economic Development Corporation | \$900,000 | |
| Brown County | 500,000 | 1,000,000 |
| N.W. Regional Planning Commission | 150,000 | |
| City of Richland Center | 299,800 | |
| Total | \$1,849,800 | \$1,416,800 ++ |
| Economic Diversification Appropriation | 0 | \$2,500,000 + |
| Awards | | \$1,068,600 ++ |

*Includes funding of \$114,000 in 1999-00 and \$125,900 in 2000-01 for a grants specialist position and related supplies and services funding for marketing and administration

+ Includes \$50,000 in supplies and services funding for marketing and administration.

++ Awards through May 7, 2001.

10. A total of \$3,894,300 in tribal gaming revenues was provided in 1999-00 for economic development grants and loans. Table 1 shows that \$1,849,800 was expended or encumbered for awards. In addition, \$26,717 was expended for the salary, fringe benefits and related supplies and services for the grants specialist position and administrative activities. Thus, a total of \$1,876,517 was expended or encumbered from the gaming economic development grant and loan appropriation in 1999-00. The remaining \$2,017,783 provided for 1999-00 was lapsed and is retained as an unappropriated balance in the appropriation. (Note that, under the bill, in future years the unencumbered balance in the consolidated gaming grant and loan appropriation at the end of a biennium would revert to the DOA Indian gaming receipts appropriation.) Commerce indicates that the large unencumbered balance is due, in part, to the delay until October, 1999, in enacting the 1999-01 biennial budget. As a result, staff felt they did not have adequate time to market and implement the program. The Department expects to award the total amounts appropriated in 2000-01 for economic diversification loans. However, staff expect that there will be an unencumbered year-end balance of \$500,000 in the economic development grant and loan program. As a result there will be an estimated \$2.5 million in the economic development grant and loan program

appropriation at the end of the fiscal year. Under the bill, this balance would be reverted back to DOA's Indian gaming receipts appropriation where the additional funding could be used for other purposes.

11. As noted, under the bill, total funding for the gaming economic development and diversification grant and loan programs would be reduced by \$2,500,000 in 2001-02 and by \$1,500,000 in 2002-03. The executive budget book indicates that this funding would be used for higher priority projects. In addition, Commerce would be authorized to make grants of up to \$1 million in 2001-02 to the M7 Development Corporation for construction of a multipurpose center in Lincoln Park in Milwaukee and grants of up to \$250,000 in each year of the biennium to Chippewa Valley Technical College for a health education center. Table 2 shows the funding that would be provided under the bill for gaming economic development and diversification grants and loans compared to the amount provided for 2000-01 under current law provisions. The amounts shown for 2000-01 do not include funding for the administrative positions and related expenses. Required legislative awards are also shown. The table shows that, net of legislative awards, total funding available for grants and loans would be less than \$1.1 million in 2001-02. As noted, Commerce staff expect to award over \$2.3 million in gaming economic development and diversification grants and loans in 2000-01. Moreover, Commerce staff anticipate that expanding the definition of eligible businesses to include start-up businesses would increase the number of Native American businesses that would apply for financial assistance. The situation would improve in 2002-03, when unrestricted funding would increase by \$2 million. In order to increase the funding available for financial assistance in 2001-02, the 2000-01 year-end balance (\$2.5 million) in the economic development grants and loans appropriation could be transferred to the grant and loan appropriation(s) in 2001-02.

TABLE 2

Total Funding for Economic Development and Diversification Grants and Loans

| | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> |
|--|-----------------------------|----------------|----------------|
| Economic Development Appropriation | \$2,388,700 | | |
| Economic Diversification Appropriation | <u>2,450,000</u> | | |
| Consolidated Amount | \$4,838,700 | \$2,338,700 | \$3,338,700 |
| Legislative Awards | | | |
| Brown County | 1,000,000 | | |
| Swiss Cultural Center | 1,000,000 | | |
| Lincoln Park Center | | 1,000,000 | |
| Chippewa Valley Technical College | <u> </u> | <u>250,000</u> | <u>250,000</u> |
| Net Total Funding | \$2,838,700 | \$1,088,700 | \$3,088,700 |

12. The Lincoln Park Center in Milwaukee would be a meeting and dining club that could be used for banquets, meetings and other events. The building would include meeting rooms, ballrooms, a restaurant, business and dining club, and gallery. The center would be managed as a private enterprise and provide employment for approximately 100 people. Services would be targeted to the African-American community.

The funding for Chippewa Valley Technical College would be used to help establish a learning center for career training in health care occupations for high school and college pupils. The monies provided would be used to construct and equip training facilities.

Both of these projects would contribute to economic development in areas that could benefit Native Americans and Native American businesses. Although some might question the direct connection between the projects and Native American economic development, projects such as municipal well replacement (Richland Center) and constructing municipal facilities (Brown County) have been funded with Indian gaming revenues in previous years. However, many similar projects have been funded from the WDF. For example, WDF funds have been previously provided to a consortium including Chippewa Valley Technical College to establish a distance education center for instruction in technology and engineering. Similarly, WDF funding has been provided for Reggie White's Wisconsin Urban Hope Initiative that provides entrepreneurial opportunities for individuals in Wisconsin's central cities. As an alternative, the Lincoln Park and Chippewa Valley projects could be funded with Wisconsin Development Fund (WDF) monies. Funding these projects from the WDF would increase the funding available for other gaming economic development or diversification projects. Conversely, the amount of funding available for other WDF projects would be reduced.

13. Under the bill, annual funding of \$120,300 PR and 1.0 PR grants specialist position would be transferred from the gaming economic development grant and loan program appropriation to the Department's Native American liaison appropriation. The grants specialist position underwrites, evaluates and makes funding recommendations for gaming economic development and diversification grant and loan programs. Other related activities include general administration, promotion and marketing of the programs. The Native American liaison appropriation funds the Department's economic liaison that is the main state government contact for Wisconsin's Native American tribes, tribal communities and entrepreneurs regarding business and economic development activities. The appropriation is funded with tribal gaming revenues. Centralizing the funding for these two positions would allow for more efficient use of the Department's funding for technical and financial assistance programs that directly benefit individual Native Americans, tribes and businesses.

14. Under current law, the Department is authorized to spend up to \$100,000 to market the gaming economic development and diversification programs. The funding for these activities is included as supplies and services in the grant and loan appropriations. The bill would transfer the grants specialist position and \$70,400 in annual supplies and services funding, as well as the authority to spend \$100,000 on marketing activities. However, an additional \$50,000 in annual supplies and services funding that is included in the economic diversification loan appropriation would remain in the consolidated grants and loans appropriation. The statutory appropriation

language for the appropriation limits expenditures from the appropriation to grants and loans. As a result, the Committee may wish to transfer the \$50,000 in annual supplies and services funding to the Department's Native American Liaison appropriation.

15. The bill would expand the eligible uses for economic diversification loans to include brownfield remediation projects. "Remediating" brownfields would be defined as abating, removing or containing environmental pollution at a brownfields facility or site, or restoring soil or groundwater at a brownfields facility or site. The Department indicates that this would allow it to fund remediation projects that would benefit businesses, including Native American businesses. An example would be the funding provided to MEDC for environmental remediation grants in the Menomonee Valley. This is viewed as beneficial to the operation of the Potawatomi Casino located in the area. On the other hand, the Department's brownfields grant program was created for the same purpose. The program has annual base level funding of \$6.4 million. In addition, under the gaming economic development and diversification grant and loan programs, environmental remediation projects would be tied to economic development and job creation projects. The Brownfields Study Group has recommended that funds should be available for projects that create green space, public property cleanups and other noneconomic development activities.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to modify the gaming economic development and diversification grant and loan programs as follows: (a) consolidate, into one biennial program revenue appropriation, both the gaming economic development and economic diversification grant and loan programs and create a consolidated program revenue biennial repayments appropriation for both programs; (b) reduce funding for the combined economic development and diversification appropriation by \$2,500,000 PR in 2001-02 and \$1,500,000 in 2002-03; (c) beginning in 2001-02, transfer annual funding of \$120,700 and 1.0 gaming grants specialist position from the gaming economic development grants and loans appropriation to the Department's Native American Liaison appropriation; (d) provide that economic diversification grants and loans could be used for brownfields remediation projects; (e) expand the definition of a business that would be qualified to receive gaming economic development and diversification grants and loans to specifically include start-up businesses; (f) authorize Commerce to make a gaming economic development grant of up to \$1,000,000 to the M7 Development Corporation for constructing a multipurpose center at Lincoln Park in the City of Milwaukee; and (g) authorize Commerce to make gaming economic development grants of up to \$250,000 in 2001-02 and 2002-03 to the Chippewa Valley Technical College for a health education center.

| Alternative 1 | PR |
|---|-----------------------|
| 2001-03 FUNDING (Change to Base) [Change to Bill] | - \$4,000,000 \$0] |

2. Approve the Governor's recommendation. In addition, transfer the 2000-01 unencumbered balance (\$2,500,000) in the gaming economic development appropriation to the

gaming economic development and diversification programs in 2001-02.

| Alternative 2 | PR |
|---|---------------------|
| 2001-03 FUNDING (Change to Base) | - \$1,500,000 |
| <i>[Change to Bill]</i> | <i>\$2,500,000]</i> |

3. Transfer \$50,000 PR annually in supplies and services funding from the gaming economic diversification loan appropriation to the Native American economic development liaison appropriation [20.143 (1) (kg)]

4. Delete authority for Commerce to make a gaming economic development grant of \$1,000,000 to the M7 Development Corporation for constructing a multipurpose center at Lincoln Park in Milwaukee. Instead, provide authority for Commerce to make a grant from the WDF for this purpose.

5. Delete authority for Commerce to make annual gaming economic development grants of \$250,000 to Chippewa Valley Technical College for a health education center. Instead, provide authority for Commerce to make grants from the WDF for this purpose.

6. Delete authority for Commerce to make economic diversification loans for environmental remediation projects.

7. Retain separate appropriations for gaming economic development grants and loans [20.143(1)(kj)] and repayments [20.143(1)(ig)] and for economic diversification loans [20.143(1)(km)] and repayments [20.143(id)].

8. Delete requirement that a business must be "negatively" impacted by the existence of a casino to be eligible for economic development grants and loans.

9. Maintain current law.

| Alternative 9 | PR |
|---|---------------------|
| 2001-03 FUNDING (Change to Base) | \$0 |
| <i>[Change to Bill]</i> | <i>\$4,000,000]</i> |

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